August 6, 2002

How Regulators Encourage Competit

INDO-US Conference on Building Natural Gas Markets

New Delhi, India

Commissioner Frederick Butler New Jersey Board of Public Utilities

Regulators Need to Assure an Environment That Will Encourage Investment in the Network

- Assure that positive conditions exist
- Eliminate barriers and bureaucratic delays
- Streamline permitting process

Regulators Need to Serve As Market Monitors and Perhaps As Dispute Resolution Agents

- Monitor supply-demand equilibrium
 - Regional administration
- Step in to resolve disputes
 - New Jersey Model

Regulators Need to Assure That Positive Conditions Exist

- A strong stable regulatory system
- Stability for return on investments
 - Legal/governmental assurances
- Ability to site, build and market capacity
- Regional or federal authorities may be necessary to cut thru bureaucracy
 - FERC
 - PJM for electricity

Eliminate Barriers and Bureaucratic Delays

- Barriers and delays in siting, construction and marketing will hinder the provision of adequate capacity
- Siting process cannot be endless and onerous
- Environmental requirements must be reasonable and predictable
 - If output (gas deliverables) can't be brought to market, no one will build the pipeline network, etc.
- Adequate transmission capacity must be provided
 - Involvement of regional or federal authorities may be required

Streamline Permitting Process

- Streamlined permitting process will attract investment in generation/competition
 - Limit levels at which approval needs to be granted
 - One-stop shopping
 - Ombudsman to steer applications through the maze
- NJ has eliminated Certificate of Need requirement by the NJBPU
- Only local zoning/construction permits, and environmental agency clean air permits are required

New Pipeline Construction

- The average time period to approve a jurisdictional transmission pipeline in New Jersey ranges between four to six months
- Interstate transmission pipelines are approved by FERC
- The time to approve these pipelines are dependant on several factors and can take up to several years to be approved

NJ Natural Gas Demand (Year 2000)

Deliveries to Consumers:

| | Million Cu. Feet | Percent of National Total | | |
|-----------------------|---------------------|---------------------------|--|--|
| Residential | 219,878 | 4.40 | | |
| Commercial | 158,543 | 4.93 | | |
| Industrial | 195,301 | 2.05 | | |
| Vehicle Fuel | 1 | 0.01 | | |
| Electric Utilities | 16,952 | 0.56 | | |
| Total | 590,675 | 2.84 | | |

NJ Natural Gas Supply

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Total Supply (million cubic feet) | 1,245,194 | 1,331,800 | 1,216,774 | 1,417,012 | 1,347,591 |

Average Prices for Natural Gas (dollars per thousand cubic feet)

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|--------------------|------|------|------|------|------|
| Residential | 7.16 | 7.93 | 7.33 | 7.46 | 7.28 |
| Electric Utilities | 2.96 | 3.06 | 2.74 | 3.08 | 4.42 |

Regulators as Dispute Resolution Agents

- Interests can frequently be at odds on construction of facilities
 - Local issues
 - Environmental concerns
- Disputes leading to long-term delay can result in system failure
- Regulators may need to adjudicate disputes

Regulators as Market Monitors

- In cooperation with grid operator and regional/federal administrators, regulators need to monitor the relationship between supply and demand
- If needed, regulators must adjust the process to improve the environment for increased capacity

Natural Gas in the Northeast

- Previously, the market was limited because of our location at the 'end of the pipeline'
- Far from traditional supply sources
- New production and new international pipelines will increase availability to the Northeast region
 - Cogeneration
 - Dual-fuel installations
 - Buidling of new gas-fired electricity facilities

Pricing Changes

- Electricity prices previously followed world oil prices and the market of nuclear generators
- Now, the prices are inline with regional natural gas prices
- High volatility in gas market
 - Prices of electricity and natural gas can change quickly
 - Spot markets are especially vulnerable

Pricing Can Affect Consumer Outlook

- 10 or 20 percent rate increase will become increasingly common
- Why might consumers tolerate volatility?
 - Prices drops follow price increases
 - Evidence of a truly competitive market
 - Ability to hedge their price risk



Transporting New Electricity Supply

- Upgrading the electricity transmission system
- Strengthening the gas system and building generation on the far side of the constraint
 - Encourages the production of electricity
 - Increases amount of gas available to direct-use customers



Needs of a Healthy Natural Gas Market

- Availability of a plentiful natural gas supply
- State action to encourage market growth

Dispute Resolution...

 NJ's "Municipal Land Use Law" allows a public utility to appeal to the Board of Public Utilities within 35 days of any aggrieved action by a municipal agency with respect to any action in which the public utility or generator has an interest, including the present or proposed use of utility provision

Conclusions:

- Regulators cannot issue bonds and construct utility capacity on their own
- They can, however, create a supportive climate for investment by others
- They must therefore assure stability, minimize barriers and monitor the process

